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EGYPT-USSR

The Soviet Union has again refused to reschedule payment of Egypt's military debt, according to press reports from Cairo.

Egyptian Finance Minister Ismail, during his meetings in Moscow last week, failed to reach agreement for rescheduling, although the door was left open for further negotiations. Egypt had requested an extension of the ten-year moratorium on its military debt that expired in 1974. Without this concession, Egypt will have to divert large quantities of exports to the USSR—mainly hard currency earners—which will impose additional strains on Cairo's balance of payments.

Despite the tough position taken by the Soviets in their meetings with Ismail and the insistence on immediate payment of some \$200 million overdue, the USSR undoubtedly wants to continue the dialogue.

Discussion of a Soviet offer to expand Moscow's participation in Egyptian development plans will take place in Cairo in the near future. The question of Egypt's debt will undoubtedly be aired again during these project review sessions.

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PORTUGAL

Despite emergency sessions over the weekend, Portugal's new three-man executive has failed to form a cabinet, prompting renewed speculation in the Lisbon press that Prime Minister Vasco Goncalves may be forced to step down. The Prime Minister's office, meanwhile, has announced that a reorganization of the executive itself is under active consideration by the triumvirate.

Despite assurances last week by President Costa Gomes that the announcement of a new government was imminent, efforts to select a cabinet over the weekend apparently failed. US embassy sources in Lisbon say less radical members of the Revolutionary Council are pressing their struggle against the Communist-leaning Goncalves. [redacted] security chief General Otelo de Carvalho, a member of the triumvirate, is unwilling to accept the role of vice prime minister under Goncalves and is insisting on co-equal status with Goncalves in a government headed by Costa Gomes.

It is also possible, however, that General Carvalho has now decided to join forces with anti-Goncalves officers to oust the Prime Minister, and that the reported executive reorganization could exclude Goncalves altogether. Whatever the explanation for the delay, Goncalves' chances of remaining Prime Minister appear to diminish as the consultations drag on.

Hopes by those Portuguese leaders opposing a further drift to the left were undoubtedly buoyed on Saturday by remarks made by Costa Gomes on his return from the CSCE summit in Helsinki. The President, who heard some tough talk concerning Portugal from other European heads of state attending the meeting, re-emphasized the readiness of other West European countries to assist Portugal, but only if Lisbon respects political pluralism and democratic freedoms. Costa Gomes again called for unity and suggested that now is the time to end partisan and personal rivalries among the ruling military. He urged the adoption of a "platform of understanding" to lead the country to a pluralistic political system.

At the present juncture it is unclear what effect, if any, the President's remarks will have on Portugal's badly divided leaders. Their continuing factional strife is having repercussions in key units throughout the military.

[redacted]

The dismissal of nine officers and four sergeants from a crack commando regiment of the internal security forces outside Lisbon last Thursday apparently was

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the result of their efforts to purge pro-Communist elements from the unit. The dismissed regimental commander, Colonel Neves, was so angered that he told a Lisbon newspaper on Saturday that he would consider participating in a coup against the present regime.

General Carvalho reportedly will attempt to resolve the dispute later today when he meets with the officers involved. The manner in which this dispute is settled could have a significant impact on political factionalism throughout the military, and particularly upon military discipline, which has become an increasing source of anxiety to Portuguese leaders in recent days. [REDACTED]

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SPAIN-PORTUGAL

Economic problems, mutually hostile news media, and a recent decision by Spain and Portugal to permit emigre groups to operate from their respective territories are causing serious strains in their relations.

At a meeting of a mixed Spanish-Portuguese commission in Lisbon on July 24 and 25, the Portuguese expressed concern about their \$150-million current-account deficit in bilateral trade and asked that trade be brought into balance. The Spaniards replied that spending by Spanish tourists offsets the deficit, but Lisbon asked Madrid to seek other ways to balance trade because of a decline in tourism.

The Spaniards protested the difficulties Spanish firms have encountered in Portugal because of government intervention and labor unrest.

Although Spain does not recognize political asylum as such, a high Spanish official recently admitted to the US embassy that some former officials of the Portuguese secret police, who escaped from prison in Portugal recently, had reached Spain and were being allowed to stay. This will present difficulties if Lisbon requests extradition.

Even more serious is Madrid's tolerance of an exile group known as the Portuguese Liberation Army. The Spaniards reportedly have promised the exiles that they would be allowed to operate from bases in Spain in return for assistance in suppressing Basque terrorism. Madrid recently protested Portugal's decision to allow a group called the Socialist Youth of Spain to hold a congress in Lisbon and to permit the publication in Oporto of a manifesto by a Spanish Galician separatist organization.

The Spanish are also worried about Portuguese radio broadcasts attacking the Franco government. These broadcasts have alleged that Spain is harboring mercenaries who plan to intervene in Portugal and that Portuguese ex-president Spínola had met with other exiles in Madrid. Spain retaliated by describing Portugal's new leadership as a "communist troika" in a telecast on July 26.

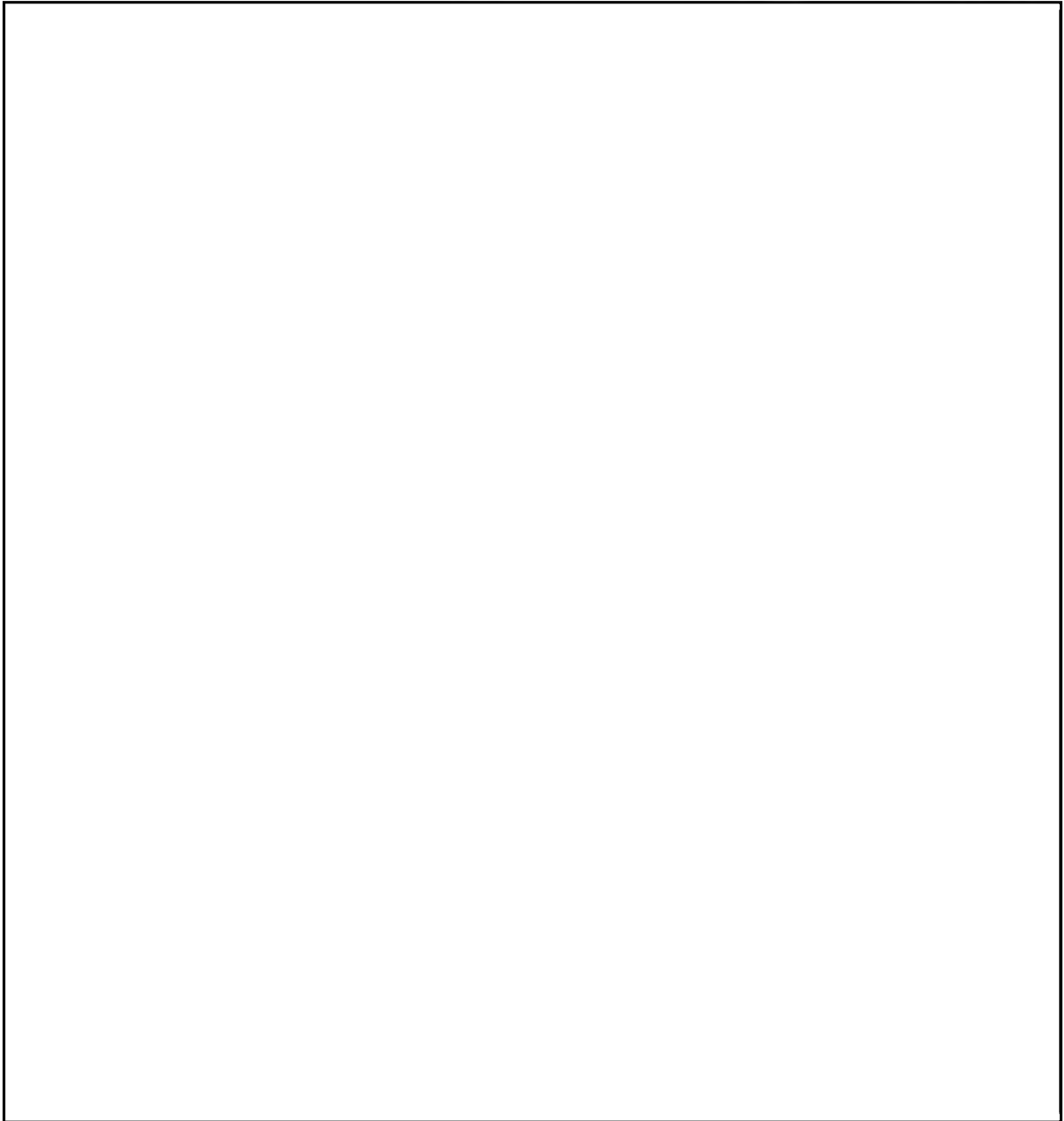
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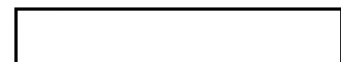
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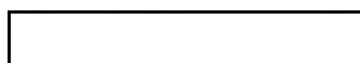
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ARGENTINA

President Peron begins a one-week vacation today, leaving the exercise of important executive functions in the hands of a small group of cabinet officials.

This group, dubbed the "mini-cabinet," is led by Interior Minister Benitez, Justice Minister Corvalan, and Defense Minister Garrido. The "mini-cabinet" has gained an increasingly significant role as the President's authority has all but disappeared, and as other cabinet ministers—notably Foreign Minister Vignes and Labor Minister Conditti—continue to be criticized for their links to the ousted Lopez Rega.

Unlike Corvalan and Garrido, who are political nonentities, Benitez appears to have some stature and enjoys considerable respect. Benitez not only came through the recent cabinet reorganization untarnished, but has assumed increased responsibility. He may soon join the ranks of those figures whose names are mentioned as potential candidates to complete Peron's term if she leaves office.

Other possible candidates are Senate president Luder, who under the constitution would become interim chief executive until Congress chooses a successor to fill out the unexpired term, and Buenos Aires provincial governor Calabro, an important elected official with labor and military ties.

Over the weekend, the outlawed leftist People's Revolutionary Army sought to exploit dissatisfaction with the government by publicly offering to suspend operations in return for certain concessions. It is demanding the release of all political prisoners, an end to the state of siege, and the revocation of "repressive laws"—including the ban on the group.

The terrorist group undoubtedly realizes that there is almost no chance that all its demands will be met. It apparently hopes, however, to enhance its image by displaying a willingness to be conciliatory and to highlight what it sees as government repression. Moreover, the group may be seeking to divert attention from the rival, nominally Peronist Montoneros, whose activities have been on the rise in recent weeks.

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LATIN AMERICA

Delegates from 25 Latin American countries, including Cuba, meeting in Panama decided on Saturday to constitute the Latin American Economic System in October. At that time, delegates will return to Panama to consider draft statutes for the organization to be drafted by a committee that will begin meeting this month.

The original proponents of the economic system, principally Mexico and Venezuela, apparently had hoped to get the organization off the ground at the conference that ended Saturday. Other countries, however, have misgivings about the organization's goals and structure, and they succeeded in postponing a final decision at least until October.

While all the prospective members apparently agree on such objectives as greater coordination of trade problems and increasing the flow of technology to Latin America, they disagree on other matters. Some countries, particularly Brazil, are concerned about the political mileage that Mexico and Venezuela will get out of the economic system, while a number of nations fear that the organization will harm their relationship with the US.

Several delegates who strongly favor the creation of the economic organization repeatedly denied at the meeting that it was intended to promote an adversary relationship with the US. These remarks apparently were intended to assuage this concern, but as an editorial in a Panamanian newspaper pointed out, if the organization in fact does not go against anyone, "it will be created with pomp but will die as a result of inertia." The motive of the economic system's sponsors is clearly to enable the Latin American states to bring more effective pressure to bear on the US for trade and other concessions.

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OAU

The Organization of African Unity ended its summit meeting in Kampala last Friday after adopting a watered-down resolution that stopped short of calling for Israel's immediate expulsion from the UN.

OAU members are asked only to increase pressure on Israel at the UN and its specialized agencies; the resolution mentions the "possibility" of eventually ousting Israel from these institutions. On the Palestine question, the OAU merely expressed "solidarity" with the Palestinians and called on Israel to recognize their "national rights."

After bitter debate, the summit rejected an Egyptian-sponsored resolution calling for Israel's suspension from the UN General Assembly; this resolution was approved last month at a meeting of OAU foreign ministers that preceded the summit. The African leaders also ward off strong pressure from Libya and Palestine Liberation Organization observers for a resolution urging Israel's outright expulsion from the UN and for the establishment of PLO offices in all OAU member states. Zaire, Ghana, and Sierra Leone apparently led black African opposition to the Arab resolutions.

The generally subdued session called for a cease-fire in Angola and asked the transitional government to permit a "committee of reconciliation" to go to the territory in the near future. The chiefs of state also endorsed the declaration on southern Africa drawn up last April at a special ministerial meeting in Dar es Salaam. The resolutions approve negotiations with South Africa if they are designed to bring about majority rule in Rhodesia and independence for Namibia (South-West Africa).

Prior to the summit, OAU foreign ministers side-stepped the thorny issue of South Africa's right to exist as an independent state by referring it to their next ministerial meeting.

As expected, Ugandan President Amin was elected OAU chairman for the coming year. Mozambique, the Cape Verde Republic, the Democratic Republic of Sao Tome and Principe, and the Comoro Islands were admitted as members, bringing the membership to 46. [REDACTED]

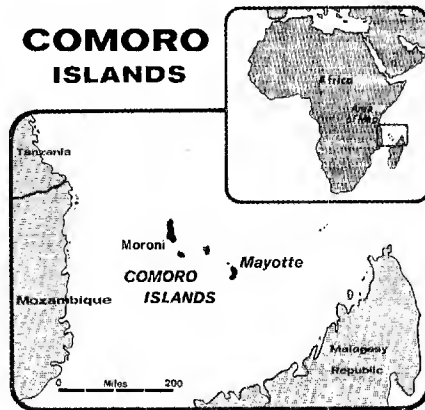
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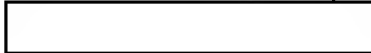
An opposition group that wants to retain links with France yesterday seized control of the Comoro Islands in a bloodless coup. The legislature of the four-island archipelago in the Mozambique channel had declared independence from France less than a month ago.

The leader of the coup, Ali Soilih, a former government minister, said his group, the National United Front, will call an assembly of all political parties to draw up a constitution.

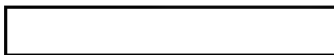
In a referendum last December, the predominantly Muslim residents of three of the four islands voted for complete independence. The Christian and pro-French majority of the island of Mayotte, however, voted to retain some links with France.

The Comorian legislature's abrupt declaration of independence was intended to counter a move by the French National Assembly that would have permitted the inhabitants of Mayotte to end their association with the other islands and make Mayotte a French overseas department.

Former president Ahmed Abdallah had vowed to keep Mayotte a part of the Comoros and on Friday he demanded that the French withdraw from all the islands as soon as possible. Pro-French demonstrations began in Mayotte on the same day and officials of the new state reportedly were forced to leave local administration offices.



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NORTH VIETNAM - CAMBODIA

A North Vietnamese delegation headed by party chief Le Duan has just concluded a visit to Cambodia, according to separate announcements by Radio Phnom Penh and Hanoi's party daily *Nhan Dan*. Neither announcement gave any details of the talks, the participants involved, or the dates, saying only that they were held "recently."

Le Duan's visit may have taken place sometime between July 7 and 22. During that time, no member of the North Vietnamese Politburo was seen in public and there was speculation that they were in South Vietnam attending a party plenum. It is possible that while in the South, Le Duan and other members made a side trip to Phnom Penh.

The visit probably was to repay an earlier one made to Hanoi in mid-June by Cambodian officials, presumably to discuss border problems on the mainland and overlapping claims to offshore islands in the Gulf of Thailand. Cambodia's deputy prime minister and defense chief, Khieu Samphan, may have led the delegation,

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Border problems and the dispute over the offshore islands almost certainly were high on the agenda during the discussions.

The North Vietnamese visit to Cambodia is the first publicly announced visit by a high-level foreign delegation since the communists assumed control in mid-April. The fact that the initiative appears to have been taken by Cambodia suggests that it may represent a signal that Phnom Penh hopes to balance somewhat the competition for influence between Peking and Hanoi. Peking has yet to dispatch such a high-level delegation to Cambodia, but Chinese representatives have been in Phnom Penh since shortly after the collapse of the Lon Nol government and China has been by far the largest source of aid to the new regime.

Possibly aware that the North Vietnamese visit would touch Chinese sensitivities, Radio Phnom Penh on the same day broadcast a message from Khieu Samphan to China's defense minister commemorating the anniversary of the Chinese army. The message warmly thanked the Chinese for their support during the five-year struggle against the Americans and the Lon Nol "clique," and noted that this support had continued in the "new phase of the Cambodian revolution."

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CHINA

A number of China's regional military commanders made appearances during Army Day celebrations on July 31. The status of many of these men was probably on the agenda of a recent meeting of party and military leaders in Peking.

Although all the returns are not yet in from the provinces, at least seven of the eleven regional military commanders appeared in their home bases. This group includes Politburo members Li Te-sheng and Hsu Shih-yu, who have been in and out of political trouble for almost two years.

The political future of another troubled commander, Han Hsien-chu, remains in doubt. He did not appear in his home province, but no replacement was named. On the other hand, the party boss of Heilungkiang Province in the northeast, a military man who has seemed an almost certain target for purge, appeared in his province for the first time in over a year.

The commanders of those areas that have not yet reported in or held rallies without naming attendants have not seemed to be in serious political trouble.

The emergence of most of these commanders in the wake of the recent meeting in Peking may be something of a setback for Chairman Mao. He has seemed more willing than the rest of the leadership to remove several of these men.

Relations between the party and the military eased considerably during Mao's absence from Peking earlier this year. The attitude in the capital at that time seemed to be that, so long as the commanders had lost their political positions, Peking was willing to allow them to retain their military duties and take the heat off them. It seems likely that the recent meeting, which probably reopened the cases of some of these commanders, was held at Mao's insistence.

Other highlights of the Army Day celebrations were the rehabilitation of former chief of staff Lo Jui-ching, one of the earliest victims of the Cultural Revolution of the mid-1960s, and the first public announcement that young party leader Wang Hung-wen had been named a vice chairman of the Military Affairs Committee, the party's watchdog over the military.

Lo has a long background in public security work. He is known as a strong law-and-order man and a staunch advocate of military professionalism, i.e., military training as opposed to a political role for the armed forces. His rehabilitation symbolizes Peking's emphasis on military discipline and training and is likely to be read in China as a further repudiation of Mao's Cultural Revolution.

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Wang's appointment to the Military Affairs Committee is another example of Peking's determination to put the army under civilian control. He is the second civilian officially appointed to the committee this year. [REDACTED]

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LAOS

The Soviets are attempting to improve their position in Laos in the wake of the drastic reduction in the US presence. The Soviets probably hope to counterbalance Chinese influence in the area.

Recent reports indicate that the Soviet presence is gradually increasing. The former Laotian ambassador in Moscow told his Canadian counterpart in late July that the Soviets recently sent some 250 men, including technicians, to Laos. Aeroflot now makes three scheduled flights weekly to Vientiane from Moscow—one more than previously. A Soviet Aeroflot IL-18 medium transport made an unscheduled flight on July 21 from Hanoi to Vientiane with 56 passengers on board.

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AUSTRALIA

The Australian Defense Ministry has scheduled a long-distance naval cruise to the Indian Ocean and South China Sea to demonstrate Canberra's continuing interest in these areas.

A task group of three destroyers, a submarine, and an oiler is to begin the three-month operation on August 4. Nearly half the time will be spent patrolling western and northern Australian waters and will include an air defense exercise at Darwin. Visits will subsequently be made in Iran, Pakistan, India, Singapore, Indonesia, Thailand, the Philippines, and Hong Kong. The flotilla will participate with British naval units in an exercise in the South China Sea.

The cruise will be only the second test of long-distance naval capabilities in two years—the first was two years ago—and is a significant undertaking in view of the government's tight budgetary restraints. Repeated violations of territorial waters in the north and west by foreign craft may have prompted the inclusion of the coastal waters phase of the operation. These violations have already resulted in an unusually high level of maritime surveillance patrols recently by navy and air force aircraft in this remote region.

The cruise comes at a time of growing domestic controversy over the government's defense policy. Defense Minister Morrison has endeavored to counter criticism by publicizing a number of measures aimed at improving the defense of continental Australia and modernizing the defense forces. These have included disclosure of plans to purchase additional West German tanks and an air defense missile system—possibly the French Roland. Public announcement of the cruise will probably be similarly used. [REDACTED]

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